



What to Know before you Acquire a Practice

By

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Now that tax season is over, you may be thinking of growing your practice through an acquisition. While it certainly remains a buyer's market, smart buyers make sure they have worked through the following points.

1. *Understand why you want to acquire a firm.* If it doesn't fit into your strategic plan, you need to step back and revisit your objectives. Ask yourself how will the acquisition strengthen your core competencies? Most acquisitions that take a firm into a new direction fail to produce the desired economic results. If you cannot articulate how the transaction will make the firm economically better, it might be better to just walk away.
2. *Do you really know the seller?* Don't tell me you looked in the sellers' eyes and decided that this was going to be a match made in heaven. My experience is that it takes a good nine months from start to finish a transaction. That gives you sufficient time to see if there is good chemistry, a common set of business and ethical beliefs, and most of all to see how the individuals act during the entire negotiation process.
3. *Put your best person in charge.* Acquisitions often start with a dinner between two managing partners. As the buyer, you want to have representing your firm the partner who can best deal with detail – legal and financial, who does not get emotional and has time to dedicate to the lengthy process. This may or may not be the managing partner.
4. *Don't let emotions rule.* Smart buyers identify all the deal breakers up front. They know when to walk away from a transaction because they have done research on the candidate's market, they know the prospects and the price they are willing to pay, and they have identified up front the deal breakers.
5. *Think about integration issues up front.* I have often said that it is not the acquisition itself that's hard, it's the integration. My experience with acquisitions is that the real work begins with the integration. This is when deals begin to unravel. No matter what you call the transaction (i.e., a merger or an acquisition), one firm, one culture will be the dominate one. Determine what that culture will be, what processes will be used and what systems will remain before you sign the contractions.
6. *Identify "keepers" up front.* Accounting mergers are all about people and client relationships. Make sure that you identify the "keepers" up front and let them know they are important to the future of the firm. The number one thing going through everyone's mind during a merger is "what will happen to me?" You need to answer they question for

the key people.

7. *Develop a letter of intent.* Developing a good letter of intent is critical for future negotiations. The letter should outline the key financial and non-financial terms of the transactions. Your letter of intent should be non-binding. In other words, you and the seller have the right to terminate the transaction at any time without any penalties to either party. The letter of intent should have a provision that binds the seller not to use your offer to shop around for a better deal.
8. *Does the firm have previous acquisition experience?* Experience has proved that first-time acquirers make financial and operational mistakes. It's like anything we do. We learn by doing it. This leads me to the next point.
9. *Decide whether to hire a consultant.* Consultants can save you a lot of time searching for the right candidate, holding your hand and providing you with the necessary checklists. A good advisor will also make sure that the deal continues to flow and help you maintain your sanity during the negotiation process.

The above list of items is by no means every thing you need to think about. If you are considering an acquisition, especially for the very first time, don't try to do it yourself. It usually turns out to be a costly venture. If you would like to have a free consultation, give me a call.

August Aquila has been involved in nearly 150 acquisitions ranging from \$100,000 to \$55,000,000. Find out how he can help you by calling him at 952-930-1295 or at aaquila@aquilaadvisors.com